



**SEKHUKHUNE**  
District Municipality

Sekhukhune District Municipality  
(Registration number DC47)  
Financial statements  
for the year ended 30 June 2017

# Sekhukhune District Municipality

(Registration number DC47)

Financial Statements for the year ended 30 June 2017

## General Information

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<b>Legal form of entity</b>	District Municipality
<b>Nature of business and principal activities</b>	Local Government - District Municipality
<b>Mayoral committee</b>	All Councillors appointed in August 2017
Executive Mayor	Cllr KS Ramaila Cllr Lepota TJ (Chief Whip) Cllr Manamela MM (Council Speaker) Cllr Nchabeleng TL Cllr Mahlangu MF Cllr Matlala MA Cllr Manganeng ML Cllr Mnisi SP Cllr Mmakola MY Cllr Nkosi SM Cllr Sihlangu TL Cllr Mafefe OH Cllr Mamekoa RS Cllr Mafefe OH Cllr Sefala KRE Cllr Mhlanga CT Cllr Maila SM Cllr Matsetela ML Cllr Mohlala MC Cllr Moimane MT Cllr Mtsweni BW
Councillors	
<b>Grading of local authority</b>	Grade 4 Municipality
<b>Accounting Officer</b>	NT Maseko
<b>Business address</b>	03 West Street Groblersdal 0470
<b>Postal address</b>	Private Bax X8611 Groblersdal 0470
<b>Bankers</b>	Standard Bank
<b>Auditors</b>	Auditor General South Africa - Limpopo Region Registered Auditors
<b>Rounding off</b>	All figures presented rounded off to nearest R1

# Sekhukhune District Municipality

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The reports and statements set out below comprise the financial statements presented to the provincial legislature:

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COID	Compensation for Occupational Injuries and Diseases
CRR	Capital Replacement Reserve
GRAP	Generally Recognised Accounting Practice
IAS	International Accounting Standards
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)

# **Sekhukhune District Municipality**

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## **Accounting Officer's Responsibilities and Approval**

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The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the financial statements and was given unrestricted access to all financial records and related data.

The financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that she is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officer has reviewed the municipality's cash flow forecast for the year to 30 June 2018 and, in the light of this review and the current financial position, she is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The external auditors are responsible for independently reviewing and reporting on the municipality's financial statements. The financial statements have been examined by the municipality's external auditors and their report is presented on page 6.

The financial statements set out on pages 6 to 54, which have been prepared on the going concern basis, were approved by the accounting officer on 30 August 2017 and were signed by:

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**NT Maseko**  
**Municipal Manager**

# Sekhukhune District Municipality

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## Audit Committee Report

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We are pleased to present our report for the financial year ended 30 June 2017.

### Audit committee members and attendance

The audit committee consists of the members listed hereunder and should meet four times per annum as per its approved terms of reference. During the current year five number of meetings were held.

<b>Name of member</b>	<b>Number of meetings attended</b>
Mr L Lankalebalela (Chairperson)	5
Mr M Mokwele (Appointed 01 April 2017)	2
Ms G Molepo (Appointed 01 April 2017)	2
Ms M Ndlovu (Appointed 01 April 2017)	1
Ms T Mathabathe (Appointed 01 April 2017)	2
Mr K Ramukumba (Former Chairperson - Term ended 31 March 2017)	2
Mr R Mnisi (Term ended 31 March 2017)	3
Ms S Makinta (Term ended 31 March 2017)	3
Ms S Mabilane (Term ended 31 March 2017)	2

### Audit committee responsibility

The audit committee reports that it has complied with its responsibilities arising from section 166(2)(a) of the MFMA.

The audit committee also reports that it has adopted appropriate formal terms of reference as its audit committee charter, has regulated its affairs in compliance with this charter and has discharged all its responsibilities as contained therein.

### The effectiveness of internal control

The system of internal controls applied by the municipality over financial and risk management is effective, efficient and transparent. In line with the MFMA and the King IV Report on Corporate Governance requirements, Internal Audit provides the audit committee and management with assurance that the internal controls are appropriate and effective. This is achieved by means of the risk management process, as well as the identification of corrective actions and suggested enhancements to the controls and processes. From the various reports of the Internal Auditors, the Audit Report on the financial statements, and the management report of the Auditor-General South Africa, it was noted that no matters were reported that indicate any material deficiencies in the system of internal control or any deviations therefrom. Accordingly, we can report that the system of internal control over financial reporting for the period under review was efficient and effective.

The quality of in year management and monthly/quarterly reports submitted in terms of the MFMA and the Division of Revenue Act.

The audit committee is satisfied with the content and quality of monthly and quarterly reports prepared and issued by the Accounting Officer of the municipality during the year under review. It was however noted that spending on operational grant was above budget and there was slow spending on capital projects.

### Evaluation of financial statements

The audit committee has:

- reviewed and discussed the audited financial statements to be included in the annual report, with the Auditor-General and the Accounting Officer;
- reviewed the Auditor-General of South Africa's management report and management's response thereto;
- reviewed changes in accounting policies and practices (delete if not applicable);
- reviewed the entities compliance with legal and regulatory provisions;
- reviewed significant adjustments resulting from the audit.

The audit committee concur with and accept the Auditor-General of South Africa's report the financial statements, and are of the opinion that the audited financial statements should be accepted and read together with the report of the Auditor-General of South Africa.

### Internal audit

The audit committee is satisfied that the internal audit function is operating effectively and that it has addressed the risks pertinent to the municipality and its audits.

# **Sekhukhune District Municipality**

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Financial Statements for the year ended 30 June 2017

## **Audit Committee Report**

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### **Auditor-General of South Africa**

The audit committee has met with the Auditor-General of South Africa to ensure that there are no unresolved issues.

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**Mr L Lankalebalela**

**Date:** \_\_\_\_\_

# Sekhukhune District Municipality

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Financial Statements for the year ended 30 June 2017

## Statement of Financial Position as at 30 June 2017

Figures in Rand	Note(s)	2017	2016 Restated*
<b>Assets</b>			
<b>Current Assets</b>			
Inventories	6	21 322 961	12 255 016
Other financial assets	4	1 000	1 000
Receivables from exchange transactions	7	52 560 330	56 241 895
Receivables from non-exchange transactions	9	75 125 197	77 285 468
VAT receivable	10	52 544 926	45 852 534
Cash and cash equivalents	11	18 961 397	45 794 149
		<b>220 515 811</b>	<b>237 430 062</b>
<b>Non-Current Assets</b>			
Property, plant and equipment	3	2 578 924 909	2 395 782 178
Non-Current Assets		2 578 924 909	2 395 782 178
Current Assets		220 515 811	237 430 062
<b>Total Assets</b>		<b>2 799 440 720</b>	<b>2 633 212 240</b>
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Operating lease liability	5	2 020 117	2 514 206
Payables from exchange transactions	15	277 566 066	224 946 557
Consumer deposits	16	2 386 882	2 105 503
Unspent conditional grants and receipts	12	34 024 596	19 430 313
Provisions	13	9 247 492	13 980 857
Borrowings	14	951 554	879 765
Bank overdraft	11	488 657	44 880 542
		<b>326 685 364</b>	<b>308 737 743</b>
<b>Non-Current Liabilities</b>			
Provisions	13	51 805 498	39 400 351
Borrowings	14	504 510	1 456 064
		<b>52 310 008</b>	<b>40 856 415</b>
Non-Current Liabilities		52 310 008	40 856 415
Current Liabilities		326 685 364	308 737 743
<b>Total Liabilities</b>		<b>378 995 372</b>	<b>349 594 158</b>
Assets		2 799 440 720	2 633 212 240
Liabilities		(378 995 372)	(349 594 158)
<b>Net Assets</b>		<b>2 420 445 348</b>	<b>2 283 618 082</b>
Accumulated surplus		2 420 445 348	2 283 618 082

\* See Note 40

# Sekhukhune District Municipality

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## Statement of Financial Performance

Figures in Rand	Note(s)	2017	2016 Restated*
<b>Revenue</b>			
<b>Revenue from exchange transactions</b>			
Service charges	18	51 779 729	52 899 929
Interest received - Outstanding receivables		9 069 981	7 414 738
Other income	19	1 648 973	10 025 675
Retention, Creditors and water balance write off		-	2 894 320
Interest received - investment	20	12 684 665	16 753 237
<b>Total revenue from exchange transactions</b>		<b>75 183 348</b>	<b>89 987 899</b>
<b>Revenue from non-exchange transactions</b>			
<b>Transfer revenue</b>			
Government grants & subsidies	22	1 072 909 939	1 197 019 952
Fines, Penalties and Forfeits		27 816	7 585
<b>Total revenue from non-exchange transactions</b>		<b>1 072 937 755</b>	<b>1 197 027 537</b>
		75 183 348	89 987 899
		1 072 937 755	1 197 027 537
<b>Total revenue</b>	17	<b>1 148 121 103</b>	<b>1 287 015 436</b>
<b>Expenditure</b>			
Employee related costs	23	(306 302 741)	(294 566 581)
Remuneration of councillors	24	(14 279 301)	(16 278 654)
Transfers - Community Projects		-	(2 882 758)
Depreciation and amortisation	25	(68 358 732)	(65 389 989)
Impairment loss/ Reversal of impairments	26	(23 643 105)	(23 250)
Finance costs	27	(3 073 237)	(1 545 985)
Lease rentals on operating lease		(8 734 122)	(8 132 162)
Debt Impairment	28	(25 095 340)	(18 605 801)
Repairs and maintenance		(53 420 843)	(45 889 747)
Bulk purchases	29	(154 532 361)	(151 299 263)
VIP Sanitation	30	(138 384 565)	(242 485 014)
Transfers and Subsidies	21	(2 947 015)	(4 907 641)
General Expenses	31	(201 440 156)	(190 447 157)
<b>Total expenditure</b>		<b>(1 000 211 518)</b>	<b>(1 042 454 002)</b>
		-	-
Total revenue		1 148 121 103	1 287 015 436
Total expenditure		(1 000 211 518)	(1 042 454 002)
<b>Operating surplus</b>		<b>147 909 585</b>	<b>244 561 434</b>
Loss on disposal of assets and liabilities		(405 203)	(739 422)
Operating surplus/deficit		(405 203)	(739 422)
Surplus before taxation		147 504 382	243 822 012
Taxation		-	-
<b>Surplus for the year</b>		<b>147 504 382</b>	<b>243 822 012</b>

\* See Note 40



# Sekhukhune District Municipality

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## Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Opening balance as previously reported	2 060 047 557	2 060 047 557
Adjustments		
Prior year adjustments	(20 251 487)	(20 251 487)
<b>Balance at 01 July 2015 as restated*</b>	<b>2 039 796 070</b>	<b>2 039 796 070</b>
Changes in net assets		
Surplus for the year	243 822 012	243 822 012
Total changes	243 822 012	243 822 012
Opening balance as previously reported	2 311 968 863	2 311 968 863
Adjustments		
Prior year adjustments	(39 027 897)	(39 027 897)
<b>Restated* Balance at 01 July 2016 as restated*</b>	<b>2 272 940 966</b>	<b>2 272 940 966</b>
Changes in net assets		
Surplus for the year	147 504 382	147 504 382
Total changes	147 504 382	147 504 382
<b>Balance at 30 June 2017</b>	<b>2 420 445 348</b>	<b>2 420 445 348</b>
Note(s)		

\* See Note 40

# Sekhukhune District Municipality

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## Cash Flow Statement

Figures in Rand	Note(s)	2017	2016 Restated*
<b>Cash flows from operating activities</b>			
<b>Receipts</b>			
Sale of goods and services		30 365 954	26 178 763
Grants		1 087 504 222	1 038 982 956
Interest income		12 684 665	16 753 237
Other receipts		13 188 420	14 109 158
		<u>1 143 743 261</u>	<u>1 096 024 114</u>
<b>Payments</b>			
Employee costs		(312 910 260)	(297 932 349)
Suppliers		(533 754 444)	(652 983 033)
Finance costs		(3 073 236)	(1 545 985)
		<u>(849 737 940)</u>	<u>(952 461 367)</u>
Total receipts		1 143 743 261	1 096 024 114
Total payments		(849 737 940)	(952 461 367)
<b>Net cash flows from operating activities</b>	34	<b><u>294 005 321</u></b>	<b><u>143 562 747</u></b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	3	(275 566 423)	(337 195 468)
Proceeds from sale of property, plant and equipment	3	-	15 140
<b>Net cash flows from investing activities</b>		<b><u>(275 566 423)</u></b>	<b><u>(337 180 328)</u></b>
<b>Cash flows from financing activities</b>			
Movement in borrowings		(879 765)	(813 392)
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>17 559 133</b>	<b>(194 430 973)</b>
Cash and cash equivalents at the beginning of the year		913 607	195 344 580
<b>Cash and cash equivalents at the end of the year</b>	11	<b><u>18 472 740</u></b>	<b><u>913 607</u></b>

\* See Note 40

# Sekhukhune District Municipality

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## Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
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Figures in Rand

### Statement of Financial Performance

#### Revenue

##### Revenue from exchange transactions

Service charges	55 253 000	(5 271 000)	<b>49 982 000</b>	51 779 729	<b>1 797 729</b>	N1
Interest received (trading)	4 800 000	1 000 000	<b>5 800 000</b>	9 069 981	<b>3 269 981</b>	N2
Other income	5 825 000	23 412 000	<b>29 237 000</b>	1 648 973	<b>(27 588 027)</b>	N3
Interest received - investment	10 000 000	1 000 000	<b>11 000 000</b>	12 684 665	<b>1 684 665</b>	N4
<b>Total revenue from exchange transactions</b>	<b>75 878 000</b>	<b>20 141 000</b>	<b>96 019 000</b>	<b>75 183 348</b>	<b>(20 835 652)</b>	

##### Revenue from non-exchange transactions

##### Transfer revenue

Government grants & subsidies	1 505 983 000	3 700 000	<b>1 509 683 000</b>	1 072 909 939	<b>(436 773 061)</b>	N5
Fines, Penalties and Forfeits	-	-	-	27 816	<b>27 816</b>	
<b>Total revenue from non-exchange transactions</b>	<b>1 505 983 000</b>	<b>3 700 000</b>	<b>1 509 683 000</b>	<b>1 072 937 755</b>	<b>(436 745 245)</b>	
'Total revenue from exchange transactions'	75 878 000	20 141 000	<b>96 019 000</b>	75 183 348	<b>(20 835 652)</b>	
'Total revenue from non-exchange transactions'	1 505 983 000	3 700 000	<b>1 509 683 000</b>	1 072 937 755	<b>(436 745 245)</b>	

#### Expenditure

Personnel	(297 799 000)	(480 000)	<b>(298 279 000)</b>	(306 302 741)	<b>(8 023 741)</b>	N6
Remuneration of councillors	(15 279 000)	(22 000)	<b>(15 301 000)</b>	(14 279 301)	<b>1 021 699</b>	N/A
Depreciation and amortisation	(69 600 000)	6 000 000	<b>(63 600 000)</b>	(68 358 732)	<b>(4 758 732)</b>	N7
Impairment loss/ Reversal of impairments	(1 600 000)	-	<b>(1 600 000)</b>	(23 643 105)	<b>(22 043 105)</b>	N8
Finance costs	(1 100 000)	-	<b>(1 100 000)</b>	(3 073 237)	<b>(1 973 237)</b>	N9
Lease rentals on operating lease	(9 000 000)	9 000 000	-	(8 734 122)	<b>(8 734 122)</b>	
Debt Impairment	(3 800 000)	-	<b>(3 800 000)</b>	(25 095 340)	<b>(21 295 340)</b>	N10
Repairs and maintenance	(37 074 000)	(3 386 000)	<b>(40 460 000)</b>	(53 420 843)	<b>(12 960 843)</b>	N11
Bulk purchases	(127 160 000)	(11 380 000)	<b>(138 540 000)</b>	(154 532 361)	<b>(15 992 361)</b>	N12
VIP Sanitation	(151 972 458)	-	<b>(151 972 458)</b>	(138 384 565)	<b>13 587 893</b>	N13
Transfers and Subsidies	(3 000 000)	-	<b>(3 000 000)</b>	(2 947 015)	<b>52 985</b>	
General Expenses	(196 633 542)	44 192 000	<b>(152 441 542)</b>	(201 440 156)	<b>(48 998 614)</b>	N14
<b>Total expenditure</b>	<b>(914 018 000)</b>	<b>43 924 000</b>	<b>(870 094 000)</b>	<b>(1 000 211 518)</b>	<b>(130 117 518)</b>	
	1 581 861 000	23 841 000	<b>1 605 702 000</b>	1 148 121 103	<b>(457 580 897)</b>	
	(914 018 000)	43 924 000	<b>(870 094 000)</b>	(1 000 211 518)	<b>(130 117 518)</b>	
<b>Operating surplus</b>	<b>667 843 000</b>	<b>67 765 000</b>	<b>735 608 000</b>	<b>147 909 585</b>	<b>(587 698 415)</b>	
Loss on disposal of assets and liabilities	-	-	-	(405 203)	<b>(405 203)</b>	
	667 843 000	67 765 000	<b>735 608 000</b>	147 909 585	<b>(587 698 415)</b>	
	-	-	-	(405 203)	<b>(405 203)</b>	
<b>Surplus before taxation</b>	<b>667 843 000</b>	<b>67 765 000</b>	<b>735 608 000</b>	<b>147 504 382</b>	<b>(588 103 618)</b>	
Deficit before taxation	667 843 000	67 765 000	<b>735 608 000</b>	147 504 382	<b>(588 103 618)</b>	

# Sekhukhune District Municipality

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## Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Taxation	-	-	-	-	-	
<b>Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement</b>	<b>667 843 000</b>	<b>67 765 000</b>	<b>735 608 000</b>	<b>147 504 382</b>	<b>(588 103 618)</b>	

# Sekhukhune District Municipality

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Financial Statements for the year ended 30 June 2017

## Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
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Figures in Rand

### Statement of Financial Position

#### Assets

##### Current Assets

Inventories	5 332 000	-	5 332 000	21 322 961	15 990 961	
Other financial assets	1 000	-	1 000	1 000	-	
Receivables from exchange transactions	71 216 000	-	71 216 000	52 560 330	(18 655 670)	
Receivables from non-exchange transactions	33 000 000	-	33 000 000	75 125 197	42 125 197	
VAT receivable	-	-	-	52 544 926	52 544 926	
Cash and cash equivalents	168 255 000	-	168 255 000	18 961 397	(149 293 603)	
	<b>277 804 000</b>	<b>-</b>	<b>277 804 000</b>	<b>220 515 811</b>	<b>(57 288 189)</b>	

##### Non-Current Assets

Property, plant and equipment	3 259 297 000	-	3 259 297 000	2 578 924 909	(680 372 091)	
Non-Current Assets	277 804 000	-	277 804 000	220 515 811	(57 288 189)	
Current Assets	3 259 297 000	-	3 259 297 000	2 578 924 909	(680 372 091)	
<b>Total Assets</b>	<b>3 537 101 000</b>	<b>-</b>	<b>3 537 101 000</b>	<b>2 799 440 720</b>	<b>(737 660 280)</b>	

#### Liabilities

##### Current Liabilities

Operating lease liability	-	-	-	2 020 117	2 020 117	
Payables from exchange transactions	145 123 000	-	145 123 000	277 566 066	132 443 066	
Consumer deposits	-	-	-	2 386 882	2 386 882	
Unspent conditional grants and receipts	-	-	-	34 024 596	34 024 596	
Provisions	-	-	-	9 247 492	9 247 492	
Borrowings	952 000	-	952 000	951 554	(446)	
Bank overdraft	-	-	-	488 657	488 657	
	<b>146 075 000</b>	<b>-</b>	<b>146 075 000</b>	<b>326 685 364</b>	<b>180 610 364</b>	

##### Non-Current Liabilities

Provisions	30 892 000	-	30 892 000	51 805 498	20 913 498	
Borrowings	505 000	-	505 000	504 510	(490)	
	<b>31 397 000</b>	<b>-</b>	<b>31 397 000</b>	<b>52 310 008</b>	<b>20 913 008</b>	
	146 075 000	-	146 075 000	326 685 364	180 610 364	
	31 397 000	-	31 397 000	52 310 008	20 913 008	
	-	-	-	-	-	
<b>Total Liabilities</b>	<b>177 472 000</b>	<b>-</b>	<b>177 472 000</b>	<b>378 995 372</b>	<b>201 523 372</b>	
Assets	3 537 101 000	-	3 537 101 000	2 799 440 720	(737 660 280)	
Liabilities	(177 472 000)	-	(177 472 000)	(378 995 372)	(201 523 372)	
<b>Net Assets</b>	<b>3 359 629 000</b>	<b>-</b>	<b>3 359 629 000</b>	<b>2 420 445 348</b>	<b>(939 183 652)</b>	

## Sekhukhune District Municipality

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Financial Statements for the year ended 30 June 2017

### Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
<b>Net Assets</b>						
<b>Net Assets Attributable to Owners of Controlling Entity</b>						
<b>Reserves</b>						
Accumulated surplus	3 359 629 000	-	<b>3 359 629 000</b>	2 420 445 348	<b>(939 183 652)</b>	

# **Sekhukhune District Municipality**

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Financial Statements for the year ended 30 June 2017

## **Accounting Policies**

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### **1. Presentation of Financial Statements**

The financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003).

These financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise. They are presented in South African Rand.

In the absence of an issued and effective Standard of GRAP, accounting policies for material transactions, events or conditions were developed in accordance with paragraphs 8, 10 and 11 of GRAP 3 as read with Directive 5.

Assets, liabilities, revenues and expenses were not offset, except where offsetting is either required or permitted by a Standard of GRAP.

A summary of the significant accounting policies, which have been consistently applied in the preparation of these financial statements, are disclosed below.

These accounting policies are consistent with the previous period.

#### **1.1 Presentation currency**

These financial statements are presented in South African Rand, which is the functional currency of the municipality.

#### **1.2 Going concern assumption**

These financial statements have been prepared based on the expectation that the municipality will continue to operate as a going concern for at least the next 12 months.

#### **1.3 Significant judgements and sources of estimation uncertainty**

In preparing the financial statements, management is required to make estimates and assumptions that affect the amounts represented in the financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the financial statements. Significant judgements include:

##### **Trade receivables / Held to maturity investments and/or loans and receivables**

The municipality assesses its trade receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the surplus makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The impairment for trade receivables is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These annual loss ratios are applied to loan balances in the portfolio and scaled to the estimated loss emergence period.

##### **Allowance for slow moving, damaged and obsolete stock**

An allowance for stock to write stock down to the lower of cost or net realisable value. Management have made estimates of the selling price and direct cost to sell on certain inventory items. The write down is included in the operation surplus note.

# **Sekhukhune District Municipality**

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Financial Statements for the year ended 30 June 2017

## **Accounting Policies**

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### **1.3 Significant judgements and sources of estimation uncertainty (continued)**

#### **Fair value estimation**

The fair value of financial instruments traded in active markets (such as trading and available-for-sale securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the municipality is the current bid price.

The fair value of financial instruments that are not traded in an active market (for example, over-the counter derivatives) is determined by using valuation techniques. The municipality uses a variety of methods and makes assumptions that are based on market conditions existing at the end of each reporting period. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward foreign exchange contracts is determined using quoted forward exchange rates at the end of the reporting period.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the municipality for similar financial instruments.

#### **Impairment testing**

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets.

#### **Provisions**

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 13 - Provisions.

#### **Useful lives of waste and water network and other assets**

The municipality's management determines the estimated useful lives and related depreciation charges for the waste water and water networks. This estimate is based on industry norm. Management will increase the depreciation charge where useful lives are less than previously estimated useful lives.

#### **Effective interest rate**

The municipality used the prime interest rate to discount future cash flows.

#### **Allowance for doubtful debts**

On debtors an impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the debtors carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition.

### **1.4 Property, plant and equipment**

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.



# Sekhukhune District Municipality

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## Accounting Policies

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### 1.4 Property, plant and equipment (continued)

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Items such as spare parts, standby equipment and servicing equipment are recognised when they meet the definition of property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

The useful lives of items of property, plant and equipment have been assessed as follows:

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Item	Depreciation method	Average useful life
Land		Indefinite lifespan
Buildings	Straight line	15-30 years
Furniture and fixtures	Straight line	3 - 10 years
Motor vehicles	Straight line	5 - 7 years
Office equipment	Straight line	3 - 10 years
Leasehold improvements	Straight line	3 - 5 years
Infrastructure - Water, resevoirs and reticulation	Straight line	5 - 80 years
Specialised vehicles	Straight line	10 - 20 years
Bins and containers	Straight line	3 - 7 years
Wastewater network	Straight line	5- 80 years
Water network	Straight line	5 -80 years

The depreciable amount of an asset is allocated on a systematic basis over its useful life.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

# Sekhukhune District Municipality

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## Accounting Policies

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### 1.4 Property, plant and equipment (continued)

The depreciation method used reflects the pattern in which the asset's future economic benefits or service potential are expected to be consumed by the municipality. The depreciation method applied to an asset is reviewed at least at each reporting date and, if there has been a significant change in the expected pattern of consumption of the future economic benefits or service potential embodied in the asset, the method is changed to reflect the changed pattern. Such a change is accounted for as a change in an accounting estimate.

The municipality assesses at each reporting date whether there is any indication that the municipality expectations about the residual value and the useful life of an asset have changed since the preceding reporting date. If any such indication exists, the municipality revises the expected useful life and/or residual value accordingly. The change is accounted for as a change in an accounting estimate.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Assets which the municipality holds for rentals to others and subsequently routinely sell as part of the ordinary course of activities, are transferred to inventories when the rentals end and the assets are available-for-sale. Proceeds from sales of these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the cash flow statement.

The municipality separately discloses expenditure to repair and maintain property, plant and equipment in the notes to the financial statements (see note5).

The municipality discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note 5).

### 1.5 Site restoration and dismantling cost

The municipality has an obligation to dismantle, remove and restore items of property, plant and equipment. Such obligations are referred to as 'decommissioning, restoration and similar liabilities'. The cost of an item of property, plant and equipment includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an municipality incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

If the related asset is measured using the cost model:

- (a) subject to (b), changes in the liability are added to, or deducted from, the cost of the related asset in the current period;
- (b) if a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit; and
- (c) if the adjustment results in an addition to the cost of an asset, the municipality considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the asset is tested for impairment by estimating its recoverable amount or recoverable service amount, and any impairment loss is recognised in accordance with the accounting policy on impairment of cash-generating assets and/or impairment of non-cash-generating assets.

### 1.6 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or a residual interest of another entity.

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

# Sekhukhune District Municipality

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Financial Statements for the year ended 30 June 2017

## Accounting Policies

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### 1.6 Financial instruments (continued)

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Derecognition is the removal of a previously recognised financial asset or financial liability from an entity's statement of financial position.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, an entity shall estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but shall not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate (see the Standard of GRAP on Revenue from Exchange Transactions), transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to reliably estimate the cash flows or the expected life of a financial instrument (or group of financial instruments), the entity shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction.

A financial asset is:

- cash;
- a residual interest of another entity; or
- a contractual right to:
  - receive cash or another financial asset from another entity; or
  - exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity.

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

A financial liability is any liability that is a contractual obligation to:

- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the entity.

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Liquidity risk is the risk encountered by an entity in the event of difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

Loans payable are financial liabilities, other than short-term payables on normal credit terms.

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

A financial asset is past due when a counterparty has failed to make a payment when contractually due.

# Sekhukhune District Municipality

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Financial Statements for the year ended 30 June 2017

## Accounting Policies

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### 1.6 Financial instruments (continued)

A residual interest is any contract that manifests an interest in the assets of an entity after deducting all of its liabilities. A residual interest includes contributions from owners, which may be shown as:

- equity instruments or similar forms of unitised capital;
- a formal designation of a transfer of resources (or a class of such transfers) by the parties to the transaction as forming part of an entity's net assets, either before the contribution occurs or at the time of the contribution; or
- a formal agreement, in relation to the contribution, establishing or increasing an existing financial interest in the net assets of an entity.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. An incremental cost is one that would not have been incurred if the entity had not acquired, issued or disposed of the financial instrument.

Financial instruments at amortised cost are non-derivative financial assets or non-derivative financial liabilities that have fixed or determinable payments, excluding those instruments that:

- the entity designates at fair value at initial recognition; or
- are held for trading.

Financial instruments at cost are investments in residual interests that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured.

Financial instruments at fair value comprise financial assets or financial liabilities that are:

- derivatives;
- combined instruments that are designated at fair value;
- instruments held for trading. A financial instrument is held for trading if:
  - it is acquired or incurred principally for the purpose of selling or repurchasing it in the near-term; or
  - on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit-taking;
  - non-derivative financial assets or financial liabilities with fixed or determinable payments that are designated at fair value at initial recognition; and
  - financial instruments that do not meet the definition of financial instruments at amortised cost or financial instruments at cost.

### Initial recognition

The entity recognises a financial asset or a financial liability in its statement of financial position when the entity becomes a party to the contractual provisions of the instrument.

The entity recognises financial assets using trade date accounting.

### Initial measurement of financial assets and financial liabilities

The entity measures a financial asset and financial liability initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

The entity measures a financial asset and financial liability initially at its fair value [if subsequently measured at fair value].

# Sekhukhune District Municipality

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Financial Statements for the year ended 30 June 2017

## Accounting Policies

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### 1.6 Financial instruments (continued)

#### Subsequent measurement of financial assets and financial liabilities

The entity measures all financial assets and financial liabilities after initial recognition using the following categories:

- Financial instruments at fair value.
- Financial instruments at amortised cost.
- Financial instruments at cost.

All financial assets measured at amortised cost, or cost, are subject to an impairment review.

#### Fair value measurement considerations

The best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, the entity establishes fair value by using a valuation technique. The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal operating considerations. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the entity uses that technique. The chosen valuation technique makes maximum use of market inputs and relies as little as possible on entity-specific inputs. It incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments. Periodically, an municipality calibrates the valuation technique and tests it for validity using prices from any observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on any available observable market data.

The fair value of a financial liability with a demand feature (e.g. a demand deposit) is not less than the amount payable on demand, discounted from the first date that the amount could be required to be paid.

#### Gains and losses

A gain or loss arising from a change in the fair value of a financial asset or financial liability measured at fair value is recognised in surplus or deficit.

For financial assets and financial liabilities measured at amortised cost or cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, or through the amortisation process.

#### Impairment and uncollectibility of financial assets

The entity assess at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired.

Financial assets measured at amortised cost:

If there is objective evidence that an impairment loss on financial assets measured at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced directly OR through the use of an allowance account. The amount of the loss is recognised in surplus or deficit.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed directly OR by adjusting an allowance account. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in surplus or deficit.

Financial assets measured at cost:

# Sekhukhune District Municipality

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Financial Statements for the year ended 30 June 2017

## Accounting Policies

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### 1.6 Financial instruments (continued)

If there is objective evidence that an impairment loss has been incurred on an investment in a residual interest that is not measured at fair value because its fair value cannot be measured reliably, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

#### Derecognition

##### Financial assets

The entity derecognises a financial asset only when:

- the contractual rights to the cash flows from the financial asset expire, are settled or waived;
- the entity transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
- the entity, despite having retained some significant risks and rewards of ownership of the financial asset, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the entity :
  - derecognise the asset; and
  - recognise separately any rights and obligations created or retained in the transfer.

The carrying amounts of the transferred asset are allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. Newly created rights and obligations are measured at their fair values at that date. Any difference between the consideration received and the amounts recognised and derecognised is recognised in surplus or deficit in the period of the transfer.

If, as a result of a transfer, a financial asset is derecognised in its entirety but the transfer results in the entity obtaining a new financial asset or assuming a new financial liability, or a servicing liability, the entity recognise the new financial asset, financial liability or servicing liability at fair value.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received is recognised in surplus or deficit.

If the transferred asset is part of a larger financial asset and the part transferred qualifies for derecognition in its entirety, the previous carrying amount of the larger financial asset is allocated between the part that continues to be recognised and the part that is derecognised, based on the relative fair values of those parts, on the date of the transfer. For this purpose, a retained servicing asset is treated as a part that continues to be recognised. The difference between the carrying amount allocated to the part derecognised and the sum of the consideration received for the part derecognised is recognised in surplus or deficit.

If a transfer does not result in derecognition because the entity has retained substantially all the risks and rewards of ownership of the transferred asset, the entity continue to recognise the transferred asset in its entirety and recognise a financial liability for the consideration received. In subsequent periods, the entity recognises any revenue on the transferred asset and any expense incurred on the financial liability. Neither the asset, and the associated liability nor the revenue, and the associated expenses are offset.

##### Financial liabilities

The entity removes a financial liability (or a part of a financial liability) from its statement of financial position when it is extinguished — i.e. when the obligation specified in the contract is discharged, cancelled, expires or waived.

An exchange between an existing borrower and lender of debt instruments with substantially different terms is accounted for as having extinguished the original financial liability and a new financial liability is recognised. Similarly, a substantial modification of the terms of an existing financial liability or a part of it is accounted for as having extinguished the original financial liability and having recognised a new financial liability.

The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in surplus or deficit. Any liabilities that are waived, forgiven or assumed by another entity by way of a non-exchange transaction are accounted for in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers).

# Sekhukhune District Municipality

(Registration number DC47)

Financial Statements for the year ended 30 June 2017

## Accounting Policies

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### 1.6 Financial instruments (continued)

#### Presentation

Interest relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Dividends or similar distributions relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Losses and gains relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Distributions to holders of residual interests are recognised by the entity directly in net assets. Transaction costs incurred on residual interests are accounted for as a deduction from net assets. Income tax [where applicable] relating to distributions to holders of residual interests and to transaction costs incurred on residual interests are accounted for in accordance with the International Accounting Standard on Income Taxes.

A financial asset and a financial liability are only offset and the net amount presented in the statement of financial position when the entity currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

In accounting for a transfer of a financial asset that does not qualify for derecognition, the entity does not offset the transferred asset and the associated liability.

### 1.7 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the entity assesses the classification of each element separately.

#### Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

### 1.8 Inventories

Inventories are initially measured at cost except where inventories are acquired through a non-exchange transaction, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

Inventories are measured at the lower of cost and current replacement cost where they are held for;

- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Current replacement cost is the cost the municipality incurs to acquire the asset on the reporting date.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

The cost of inventories is assigned using the weighted average cost formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

# Sekhukhune District Municipality

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Financial Statements for the year ended 30 June 2017

## Accounting Policies

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### 1.8 Inventories (continued)

The cost of inventories for Operations and Maintenance materials not bought through normal stores system are assigned using the First in First Out formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

### 1.9 Impairment of cash-generating assets

Cash-generating assets are assets managed with the objective of generating a commercial return. An asset generates a commercial return when it is deployed in a manner consistent with that adopted by a profit-oriented entity.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets managed with the objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable amount of an asset or a cash-generating unit is the higher its fair value less costs to sell and its value in use.

Useful life is either:

- (a) the period of time over which an asset is expected to be used by the municipality; or
- (b) the number of production or similar units expected to be obtained from the asset by the municipality.

Criteria developed by the municipality to distinguish cash-generating assets from non-cash-generating assets are as follow:

### 1.10 Employee benefits

Employee benefits are all forms of consideration given by an entity in exchange for service rendered by employees.

A qualifying insurance policy is an insurance policy issued by an insurer that is not a related party (as defined in the Standard of GRAP on Related Party Disclosures) of the reporting entity, if the proceeds of the policy can be used only to pay or fund employee benefits under a defined benefit plan and are not available to the reporting entity's own creditors (even in liquidation) and cannot be paid to the reporting entity, unless either:

- the proceeds represent surplus assets that are not needed for the policy to meet all the related employee benefit obligations; or
- the proceeds are returned to the reporting entity to reimburse it for employee benefits already paid.

Termination benefits are employee benefits payable as a result of either:

- an entity's decision to terminate an employee's employment before the normal retirement date; or
- an employee's decision to accept voluntary redundancy in exchange for those benefits.

Other long-term employee benefits are employee benefits (other than post-employment benefits and termination benefits) that are not due to be settled within twelve months after the end of the period in which the employees render the related service.



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### 1.10 Employee benefits (continued)

Vested employee benefits are employee benefits that are not conditional on future employment.

Composite social security programmes are established by legislation and operate as multi-employer plans to provide post-employment benefits as well as to provide benefits that are not consideration in exchange for service rendered by employees.

A constructive obligation is an obligation that derives from an entity's actions where by an established pattern of past practice, published policies or a sufficiently specific current statement, the entity has indicated to other parties that it will accept certain responsibilities and as a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

#### Short-term employee benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service.

Short-term employee benefits include items such as:

- wages, salaries and social security contributions;
- short-term compensated absences (such as paid annual leave and paid sick leave) where the compensation for the absences is due to be settled within twelve months after the end of the reporting period in which the employees render the related employee service;
- bonus, incentive and performance related payments payable within twelve months after the end of the reporting period in which the employees render the related service; and
- non-monetary benefits (for example, medical care, and free or subsidised goods or services such as housing, cars and cellphones) for current employees.

When an employee has rendered service to the entity during a reporting period, the entity recognise the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:

- as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the entity recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs. The entity measure the expected cost of accumulating compensated absences as the additional amount that the entity expects to pay as a result of the unused entitlement that has accumulated at the reporting date.

The entity recognise the expected cost of bonus, incentive and performance related payments when the entity has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made. A present obligation exists when the entity has no realistic alternative but to make the payments.

### 1.11 Provisions and contingencies

Provisions are recognised when:

- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

# Sekhukhune District Municipality

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Financial Statements for the year ended 30 June 2017

## Accounting Policies

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### 1.11 Provisions and contingencies (continued)

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating deficits.

If an entity has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

A constructive obligation to restructure arises only when an entity:

- has a detailed formal plan for the restructuring, identifying at least:
  - the activity/operating unit or part of a activity/operating unit concerned;
  - the principal locations affected;
  - the location, function, and approximate number of employees who will be compensated for services being terminated;
  - the expenditures that will be undertaken; and
  - when the plan will be implemented; and
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

A restructuring provision includes only the direct expenditures arising from the restructuring, which are those that are both:

- necessarily entailed by the restructuring; and
- not associated with the ongoing activities of the municipality

No obligation arises as a consequence of the sale or transfer of an operation until the municipality is committed to the sale or transfer, that is, there is a binding arrangement.

After their initial recognition contingent liabilities recognised in entity combinations that are recognised separately are subsequently measured at the higher of:

- the amount that would be recognised as a provision; and
- the amount initially recognised less cumulative amortisation.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 37.

### 1.12 Commitments

Items are classified as commitments when an entity has committed itself to future transactions that will normally result in the outflow of cash.

Disclosures are required in respect of unrecognised contractual commitments.

Commitments for which disclosure is necessary to achieve a fair presentation should be disclosed in a note to the financial statements, if both the following criteria are met:

- Contracts should be non-cancellable or only cancellable at significant cost (for example, contracts for computer or building maintenance services); and
- Contracts should relate to something other than the routine, steady, state business of the entity – therefore salary commitments relating to employment contracts or social security benefit commitments are excluded.

# Sekhukhune District Municipality

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Financial Statements for the year ended 30 June 2017

## Accounting Policies

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### 1.13 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

#### Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

#### Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

#### Interest

Revenue arising from the use by others of entity assets yielding interest or similar distributions is recognised when:

- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and
- The amount of the revenue can be measured reliably.

Interest is recognised, in surplus or deficit, using the effective interest rate method.

Service fees included in the price of the product are recognised as revenue over the period during which the service is performed.

### 1.14 Revenue from non-exchange transactions

Revenue comprises gross inflows of economic benefits or service potential received and receivable by an municipality, which represents an increase in net assets, other than increases relating to contributions from owners.

Conditions on transferred assets are stipulations that specify that the future economic benefits or service potential embodied in the asset is required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

Control of an asset arises when the municipality can use or otherwise benefit from the asset in pursuit of its objectives and can exclude or otherwise regulate the access of others to that benefit.

Exchange transactions are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.

# Sekhukhune District Municipality

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Financial Statements for the year ended 30 June 2017

## Accounting Policies

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### 1.14 Revenue from non-exchange transactions (continued)

Expenses paid through the tax system are amounts that are available to beneficiaries regardless of whether or not they pay taxes.

Fines are economic benefits or service potential received or receivable by entities, as determined by a court or other law enforcement body, as a consequence of the breach of laws or regulations.

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, an municipality either receives value from another municipality without directly giving approximately equal value in exchange, or gives value to another municipality without directly receiving approximately equal value in exchange.

Restrictions on transferred assets are stipulations that limit or direct the purposes for which a transferred asset may be used, but do not specify that future economic benefits or service potential is required to be returned to the transferor if not deployed as specified.

Stipulations on transferred assets are terms in laws or regulation, or a binding arrangement, imposed upon the use of a transferred asset by entities external to the reporting municipality.

Tax expenditures are preferential provisions of the tax law that provide certain taxpayers with concessions that are not available to others.

The taxable event is the event that the government, legislature or other authority has determined will be subject to taxation.

Taxes are economic benefits or service potential compulsorily paid or payable to entities, in accordance with laws and or regulations, established to provide revenue to government. Taxes do not include fines or other penalties imposed for breaches of the law.

Transfers are inflows of future economic benefits or service potential from non-exchange transactions, other than taxes.

### Recognition

An inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

As the municipality satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.

### Measurement

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the municipality.

When, as a result of a non-exchange transaction, the municipality recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

### Fines

Fines are recognised as revenue when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset.

Assets arising from fines are measured at the best estimate of the inflow of resources to the municipality.

Where the municipality collects fines in the capacity of an agent, the fine will not be revenue of the collecting entity.

# **Sekhukhune District Municipality**

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Financial Statements for the year ended 30 June 2017

## **Accounting Policies**

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### **1.14 Revenue from non-exchange transactions (continued)**

#### **Gifts and donations, including goods in-kind**

Gifts and donations, including goods in kind, are recognised as assets and revenue when it is probable that the future economic benefits or service potential will flow to the municipality and the fair value of the assets can be measured reliably.

### **1.15 Turnover**

Turnover comprises of sales to customers and service rendered to customers. Turnover is stated at the invoice amount and is exclusive of value added taxation.

### **1.16 Investment income**

Investment income is recognised on a time-proportion basis using the effective interest method.

### **1.17 Borrowing costs**

Borrowing costs are interest and other expenses incurred by an entity in connection with the borrowing of funds.

Borrowing costs are recognised as an expense in the period in which they are incurred.

### **1.18 Comparative figures**

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

### **1.19 Unauthorised expenditure**

Unauthorised expenditure means:

- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

# Sekhukhune District Municipality

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Financial Statements for the year ended 30 June 2017

## Accounting Policies

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### 1.20 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

### 1.21 Irregular expenditure

Irregular expenditure as defined in section 1 of the PFMA is expenditure other than unauthorised expenditure, incurred in contravention of or that is not in accordance with a requirement of any applicable legislation, including -

- (a) this Act; or
- (b) the State Tender Board Act, 1968 (Act No. 86 of 1968), or any regulations made in terms of the Act; or
- (c) any provincial legislation providing for procurement procedures in that provincial government.

National Treasury practice note no. 4 of 2008/2009 which was issued in terms of sections 76(1) to 76(4) of the PFMA requires the following (effective from 1 April 2008):

Irregular expenditure that was incurred and identified during the current financial and which was condoned before year end and/or before finalisation of the financial statements must also be recorded appropriately in the irregular expenditure register. In such an instance, no further action is also required with the exception of updating the note to the financial statements.

Irregular expenditure that was incurred and identified during the current financial year and for which condonement is being awaited at year end must be recorded in the irregular expenditure register. No further action is required with the exception of updating the note to the financial statements.

Where irregular expenditure was incurred in the previous financial year and is only condoned in the following financial year, the register and the disclosure note to the financial statements must be updated with the amount condoned.

Irregular expenditure that was incurred and identified during the current financial year and which was not condoned by the National Treasury or the relevant authority must be recorded appropriately in the irregular expenditure register. If liability for the irregular expenditure can be attributed to a person, a debt account must be created if such a person is liable in law. Immediate steps must thereafter be taken to recover the amount from the person concerned. If recovery is not possible, the accounting officer or accounting authority may write off the amount as debt impairment and disclose such in the relevant note to the financial statements. The irregular expenditure register must also be updated accordingly. If the irregular expenditure has not been condoned and no person is liable in law, the expenditure related thereto must remain against the relevant programme/expenditure item, be disclosed as such in the note to the financial statements and updated accordingly in the irregular expenditure register.

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

### 1.22 Budget information

Municipality are typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by municipality shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The approved budget is prepared on a accrual basis and presented by economic classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 2016-07-01 to 2017-06-30.

The budget for the economic entity includes all the entities approved budgets under its control.

# Sekhukhune District Municipality

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Financial Statements for the year ended 30 June 2017

## Accounting Policies

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### 1.22 Budget information (continued)

The financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the Statement of comparison of budget and actual amounts.

The Statement of comparative and actual information has been included in the financial statements as the recommended disclosure when the financial statements and the budget are on the same basis of accounting as determined by National Treasury.

### 1.23 Related parties

The municipality operates in an economic sector currently dominated by entities directly or indirectly owned by the South African Government. As a consequence of the constitutional independence of the three spheres of government in South Africa, only entities within the local sphere of government are considered to be related parties.

Management are those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.

Only transactions with related parties not at arm's length or not in the ordinary course of business are disclosed.

### 1.24 Events after reporting date

Events after reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
- those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

The municipality will adjust the amount recognised in the financial statements to reflect adjusting events after the reporting date once the event occurred.

The municipality will disclose the nature of the event and an estimate of its financial effect or a statement that such estimate cannot be made in respect of all material non-adjusting events, where non-disclosure could influence the economic decisions of users taken on the basis of the financial statements.

# Sekhukhune District Municipality

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Financial Statements for the year ended 30 June 2017

## Notes to the Financial Statements

Figures in Rand

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### 2. New standards and interpretations

#### 2.1 Standards and interpretations effective and adopted in the current year

In the current year, the municipality has adopted the following standards and interpretations that are effective for the current financial year and that are relevant to its operations:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• GRAP 108: Statutory Receivables	01 April 2016	The impact of the is not material.
• GRAP 32: Service Concession Arrangements: Grantor	01 April 2016	The impact of the is not material.
• IGRAP 17: Service Concession Arrangements where a Grantor Controls a Significant Residual Interest in an Asset	01 April 2016	The impact of the is not material.

#### 2.2 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2017 or later periods:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• GRAP 34: Separate Financial Statements	01 April 2019	Unlikely there will be a material impact
• GRAP 35: Consolidated Financial Statements	01 April 2019	Unlikely there will be a material impact
• GRAP 36: Investments in Associates and Joint Ventures	01 April 2019	Unlikely there will be a material impact
• GRAP 37: Joint Arrangements	01 April 2019	Unlikely there will be a material impact
• GRAP 38: Disclosure of Interests in Other Entities	01 April 2019	Unlikely there will be a material impact
• GRAP 110: Living and Non-living Resources	01 April 2019	Unlikely there will be a material impact
• GRAP 12 (as amended 2016): Inventories	01 April 2018	Unlikely there will be a material impact
• GRAP 27 (as amended 2016): Agriculture	01 April 2018	Unlikely there will be a material impact
• GRAP 31 (as amended 2016): Intangible Assets	01 April 2018	Unlikely there will be a material impact
• GRAP 103 (as amended 2016): Heritage Assets	01 April 2018	Unlikely there will be a material impact
• GRAP 110 (as amended 2016): Living and Non-living Resources	01 April 2018	Unlikely there will be a material impact
• IGRAP 18: Interpretation of the Standard of GRAP on Recognition and Derecognition of Land	01 April 2019	Unlikely there will be a material impact
• Directive 12: The Selection of an Appropriate Reporting Framework by Public Entities	01 April 2018	Unlikely there will be a material impact
• GRAP 20: Related parties	01 April 2017	Unlikely there will be a material impact
• GRAP 26 (as amended 2016): Impairment of cash-generating assets	01 April 2018	Unlikely there will be a material impact
• GRAP 109: Accounting by Principals and Agents	01 April 2017	Unlikely there will be a material impact
• GRAP 21 (as amended 2016): Impairment of non-cash-generating assets	01 April 2018	Unlikely there will be a material impact



# Sekhukhune District Municipality

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Financial Statements for the year ended 30 June 2017

## Notes to the Financial Statements

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### 2. New standards and interpretations (continued)

• GRAP 18 (as amended 2016): Segment Reporting	01 April 2018	Unlikely there will be a material impact
• GRAP 17 (as amended 2016): Property, Plant and Equipment	01 April 2018	Unlikely there will be a material impact
• GRAP 16 (as amended 2016): Investment Property	01 April 2018	Unlikely there will be a material impact
• GRAP 106 (as amended 2016): Transfers of functions between entities not under common control	01 April 2018	Unlikely there will be a material impact

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Financial Statements for the year ended 30 June 2017

## Notes to the Financial Statements

Figures in Rand

### 3. Property, plant and equipment

	2017			2016		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	12 860 001	-	12 860 001	12 860 001	-	12 860 001
Buildings	23 366 165	(14 061 808)	9 304 357	23 372 307	(12 559 004)	10 813 303
Furniture and fixtures	5 520 468	(2 680 276)	2 840 192	4 905 793	(2 156 436)	2 749 357
Motor vehicles	4 610 599	(3 145 131)	1 465 468	4 610 599	(2 603 304)	2 007 295
Office equipment	11 336 488	(4 894 086)	6 442 402	9 806 176	(3 833 307)	5 972 869
Leasehold improvements	200 300	(24 345)	175 955	25 300	(3 715)	21 585
Roads Infrastructure	65 704 027	(27 502 956)	38 201 071	65 704 027	(24 272 996)	41 431 031
Community Assets	5 184 955	(2 424 902)	2 760 053	5 184 955	(2 218 575)	2 966 380
Water Infrastructure	1 535 226 027	(424 167 194)	1 111 058 833	1 459 454 811	(363 089 696)	1 096 365 115
Sanitation Infrastructure	67 479 481	(26 025 201)	41 454 280	67 479 481	(23 193 487)	44 285 994
Bins and containers	199 045	(104 853)	94 192	199 045	(84 929)	114 116
Emergency Assets	1 471 272	(964 886)	506 386	1 471 272	(817 759)	653 513
Assets under construction	1 351 761 719	-	1 351 761 719	1 175 541 619	-	1 175 541 619
<b>Total</b>	<b>3 084 920 547</b>	<b>(505 995 638)</b>	<b>2 578 924 909</b>	<b>2 830 615 386</b>	<b>(434 833 208)</b>	<b>2 395 782 178</b>

### Reconciliation of property, plant and equipment - 2017

	Opening balance	Additions	Disposals	Transfers	Depreciation	Impairment loss	Total
Land	12 860 001	-	-	-	-	-	12 860 001
Buildings	10 813 303	-	(692)	-	(1 508 254)	-	9 304 357
Furniture and fixtures	2 749 357	614 675	-	-	(523 840)	-	2 840 192
Motor vehicles	2 007 295	-	-	-	(541 827)	-	1 465 468
Office equipment	5 972 869	1 530 312	-	-	(1 060 779)	-	6 442 402
Leasehold improvements	21 585	175 000	-	-	(20 630)	-	175 955
Roads Infrastructure	41 431 031	-	-	-	(3 229 791)	(169)	38 201 071

# Sekhukhune District Municipality

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Financial Statements for the year ended 30 June 2017

## Notes to the Financial Statements

Figures in Rand

### 3. Property, plant and equipment (continued)

Community Assets	2 966 380	-	-	-	(206 327)	-	2 760 053
Water Infrastructure	1 096 365 115	10 818 569	(421 163)	65 739 639	(58 484 795)	(2 958 532)	1 111 058 833
Sanitation Assets	44 285 994	-	-	-	(2 615 438)	(216 276)	41 454 280
Bins and containers	114 116	-	-	-	(19 924)	-	94 192
Emergency Equipment	653 513	-	-	-	(147 127)	-	506 386
Assets under construction	1 175 541 619	262 427 867	-	(65 739 639)	-	(20 468 128)	1 351 761 719
	<b>2 395 782 178</b>	<b>275 566 423</b>	<b>(421 855)</b>	<b>-</b>	<b>(68 358 732)</b>	<b>(23 643 105)</b>	<b>2 578 924 909</b>

### Reconciliation of property, plant and equipment - 2016

	Opening balance	Additions	Disposals	Transfers	Depreciation	Impairment loss	Total
Land	12 860 001	-	-	-	-	-	12 860 001
Buildings	12 389 786	-	-	-	(1 576 483)	-	10 813 303
Furniture and fixtures	2 485 778	1 075 375	(74 111)	-	(737 685)	-	2 749 357
Motor vehicles	2 394 188	-	-	-	(386 893)	-	2 007 295
Office equipment	6 105 747	1 722 012	(22 065)	-	(1 832 825)	-	5 972 869
Leasehold improvements	-	25 300	-	-	(3 715)	-	21 585
Infrastructure - Roads	45 549 407	-	-	-	(4 118 376)	-	41 431 031
Community	3 179 192	-	-	-	(212 812)	-	2 966 380
Water Infrastructure	1 030 225 512	28 182 805	(658 333)	92 439 008	(53 800 627)	(23 250)	1 096 365 115
Sanitation Assets	37 680 604	-	-	9 028 685	(2 423 295)	-	44 285 994
Bins and containers	140 846	1 685	(53)	-	(28 362)	-	114 116
Emergency Assets	922 429	-	-	-	(268 916)	-	653 513
Assets under construction	903 735 939	337 195 468	-	(65 389 788)	-	-	1 175 541 619
	<b>2 057 669 429</b>	<b>368 202 645</b>	<b>(754 562)</b>	<b>36 077 905</b>	<b>(65 389 989)</b>	<b>(23 250)</b>	<b>2 395 782 178</b>

### Pledged as security

No assets are pledged as security as at end of the year

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

# Sekhukhune District Municipality

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Financial Statements for the year ended 30 June 2017

## Notes to the Financial Statements

Figures in Rand	2017	2016
<b>4. Other financial assets</b>		
<b>Designated at cost</b>		
Investment - Municipal Entity (Sekhukhune Development Agency)	1 000	1 000
The municipality is a sole shareholder of Sekhukhune Development Agency		
	<u>1 000</u>	<u>1 000</u>
	-	-
	-	-
<b>Current assets</b>		
Designated at cost	1 000	1 000
Non-current assets	-	-
Current assets	<u>1 000</u>	<u>1 000</u>
<b>5. Operating lease asset (accrual)</b>		
Current liabilities	(2 020 117)	(2 514 206)
<b>6. Inventories</b>		
Consumable stores	2 614 243	1 211 465
Maintenance materials	17 857 707	10 115 319
Water	851 011	928 232
	<u>21 322 961</u>	<u>12 255 016</u>
Inventories recognised as an expense during the year	15 142 499	1 386 411
<b>7. Receivables from exchange transactions</b>		
Trade debtors	<u>52 560 330</u>	<u>56 241 895</u>
<b>Trade and other receivables impaired</b>		
As of 30 June 2017, trade and other receivables of 25 095 340 (2016: 15 055 670) were impaired and provided for.		
The amount of the provision was (70 160 615) as of 30 June 2017 (2016: (71 194 232)).		
<b>Reconciliation of provision for impairment of trade and other receivables</b>		
Opening balance	71 194 232	56 138 562
Provision for impairment	25 095 340	15 055 670
Amounts written off as uncollectible	(26 128 956)	-
	<u>70 160 616</u>	<u>71 194 232</u>

The creation and release of provision for impaired receivables have been included in operating expenses in surplus or deficit (note ).

# Sekhukhune District Municipality

(Registration number DC47)

Financial Statements for the year ended 30 June 2017

## Notes to the Financial Statements

Figures in Rand	2017	2016
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### 8. Trade and other receivables - Ageing

Summary of trade and other receivables

#### Trade and receivables at 30 June 2017

	Gross Debtors	Provision for Doubtful Debts	Net Balances
Water	109 459 944	(62 579 188)	46 880 756
Sewerage	13 261 000	(7 581 426)	5 679 574
	<b>122 720 944</b>	<b>(70 160 614)</b>	<b>52 560 330</b>

#### Trade and receivables at 30 June 2016

	Gross Debtors	Provision for Doubtful Debts	Net Balances
Water	111 384 694	(60 605 513)	50 779 181
Sewerage	16 051 433	(10 588 719)	5 462 714
	<b>127 436 127</b>	<b>(71 194 232)</b>	<b>56 241 895</b>

Figures in Rand	Sewerage		Water	
	2017	2016	2017	2016
Current	583 866	726 360	5 254 795	4 979 531
31-90 days	1 181 473	2 172 534	10 633 254	14 893 729
91-120 days	331 963	687 449	2 987 663	4 712 782
121-180 Days	346 785	447 779	3 121 069	3 069 728
	9 928 173	12 017 311	88 351 903	83 728 924
Subtotal	12 372 260	16 051 433	110 348 684	111 384 694
	(7 581 426)	(10 588 719)	(62 579 188)	(60 605 513)
	<b>4 790 834</b>	<b>5 462 714</b>	<b>47 769 496</b>	<b>50 779 181</b>

The above shows trade receivables ageing per service type

#### Trade receivables ageing per customer classification

##### 2017

	Government departments	Business/Commercial	Households	Total
Current (0-30 days)	333 963	2 192 025	3 312 672	5 838 660
31-90 days	432 963	3 221 086	8 160 677	11 814 726
91-120 Days	103 158	956 391	2 260 076	3 319 625
121-180 Days	122 298	811 474	2 534 082	3 467 854
+ 180 Days	4 202 733	17 641 551	76 435 796	98 280 080
Subtotal	5 195 115	24 822 527	92 703 303	122 720 945
Less Provision for doubtful debts	-	(12 023 455)	(58 137 160)	(70 160 615)
	<b>5 195 115</b>	<b>12 799 072</b>	<b>34 566 143</b>	<b>52 560 330</b>

##### 2016

	Government departments	Business/Commercial	Households	Total
Current (0-30 days)	251 262	2 233 463	3 221 166	5 705 891
31 - 90 Days	467 746	7 318 519	9 279 999	17 066 264
91-120 Days	94 019	1 429 151	1 697 156	3 220 326
121-180 Days	397 882	3 582 652	4 937 204	8 917 738
+ 180 Days	3 897 154	9 067 817	79 560 937	92 525 908
Subtotal	5 108 063	23 631 602	98 696 462	127 436 127
Less Provision for doubtful debts	-	(16 104 136)	(55 090 096)	(71 194 232)
	<b>5 108 063</b>	<b>7 527 466</b>	<b>43 606 366</b>	<b>56 241 895</b>

# Sekhukhune District Municipality

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## Notes to the Financial Statements

Figures in Rand	2017	2016
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### 9. Receivables from non-exchange transactions

Guarantees	27 665 230	27 665 230
DWS RBIG Funds	44 990 086	47 139 224
Other debtors	2 469 881	2 481 014
	<b>75 125 197</b>	<b>77 285 468</b>

#### Guarantees

A bank guarantee amounting to R150 990 959 for MIG grant was made for purchase of materials. The payment is released by the bank after the municipality having authorised the payment. The transfer is classified as a debtor. The amount remaining represents the balance outstanding after part materials delivered and equivalent amount released. The term of the guarantee is up to the completion of project and release of final completion certificate by 30 June 2018. Interest and cost of guarantees are borne by the service provider. We are currently in the process of redeeming the remaining balance after the projects were completed.

### 10. VAT receivable

VAT	52 544 926	45 852 534
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The South African Revenue Services has disallowed VAT input to the amount of R44 899 133 during the current financial year which is included on the VAT receivable as a VAT consultant has been appointed to engage SARS on the disallowed VAT.

### 11. Cash and cash equivalents

Cash and cash equivalents consist of:

Short-term deposits	18 961 397	45 794 149
Bank overdraft	(488 657)	(44 880 542)
	<b>18 472 740</b>	<b>913 607</b>
Current assets	18 961 397	45 794 149
Current liabilities	(488 657)	(44 880 542)
	<b>18 472 740</b>	<b>913 607</b>

#### The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2017	30 June 2016	30 June 2015	30 June 2017	30 June 2016	30 June 2015
Standard bank - Primary Account	(1 495 480)	35 667 070	18 745 951	(488 657)	(44 880 542)	(6 991 232)
FNB Call account	10 530 179	-	1 835 943	10 530 179	-	1 835 943
Nedbank Call account,	-	10 791 348	167 406 093	-	11 049 160	168 179 109
ABSA Call account	251 435	442 560	263 130	252 857	445 033	263 645
Standard Bank Call account	8 178 362	34 299 956	32 057 115	8 178 362	34 299 956	32 057 115
<b>Total</b>	<b>17 464 496</b>	<b>81 200 934</b>	<b>220 308 232</b>	<b>18 472 741</b>	<b>913 607</b>	<b>195 344 580</b>

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## Notes to the Financial Statements

Figures in Rand	2017	2016
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### 12. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

#### Unspent conditional grants and receipts

Municipal Infrastructure Grant	-	16 183 843
Municipal System Improvement Grant (MSIG)	-	65 563
Water Services Operating Grant	-	3 180 907
Water Services Infrastructure Grant	33 540 616	-
Rural Roads Assets Management System Grant	483 980	-
	<b>34 024 596</b>	<b>19 430 313</b>

Unfulfilled conditions and other contingencies attaching to government assistance that has been recognised.

See note 22 for reconciliation of grants from National Government.

These amounts are invested in a ring-fenced investment until utilised.

# Sekhukhune District Municipality

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Financial Statements for the year ended 30 June 2017

## Notes to the Financial Statements

Figures in Rand	2017	2016
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### 13. Provisions

#### Reconciliation of provisions - 2017

	Opening Balance	Additions	Change in discount factor	Total
Leave Provision	22 265 956	2 779 701	304 882	25 350 539
Rehabilitation of landfill site provision	19 098 846	1 266 160	1 615 075	21 980 081
Long Service Awards Provision	12 016 406	722 300	983 664	13 722 370
	<b>53 381 208</b>	<b>4 768 161</b>	<b>2 903 621</b>	<b>61 052 990</b>

#### Reconciliation of provisions - 2016

	Opening Balance	Additions	Change in discount factor	Total
Leave provision	22 047 567	218 389	-	22 265 956
Rehabilitation of landfill site provision	9 973 805	9 125 041	-	19 098 846
Long service awards	8 446 950	4 060 476	(491 020)	12 016 406
	<b>40 468 322</b>	<b>13 403 906</b>	<b>(491 020)</b>	<b>53 381 208</b>

Non-current liabilities	51 805 498	39 400 351
Current liabilities	9 247 492	13 980 857
	<b>61 052 990</b>	<b>53 381 208</b>

#### Environmental rehabilitation provision

The provision is the estimate for the closure and capping costs of Malogeng and Janefurse landfill sites at closure in terms of the minimum requirements for Waste Disposal by landfill ( Department of Water Affairs and Forestry, 1998 - DWA MRWL).

A discount rate of 8.14% and average inflation rate of 5.64% was used as key assumptions resulting in the net effective discount rate of 2.5%.

#### Leave Provision

The provision is the value of unused leave liability at year end. The following assumptions were used in the determination of the leave liability:

The discount rate of 9.17% and the general salary inflation of 6.99% resulting in net effective discount rate of 2.03%. The average retirement age was assumed to be 60 years.

#### Long service awards provision

The provision is the value of long service award liability that is expected to be payable under the municipality's current arrangements and as per condition of service approved by SALGBC. The following assumptions were used in determining the long service award liability:

785 employees were eligible for long service awards. The discount rate of 8.39% and the general salary inflation of 6.21% resulting in net effective discount rate of 2.05%. The average retirement age was assumed to be 60 years.



# Sekhukhune District Municipality

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Financial Statements for the year ended 30 June 2017

## Notes to the Financial Statements

Figures in Rand	2017	2016
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### 14. Borrowings

Figures in Rand	2017	2016
Annuity loans	1 456 064	2 335 829
Subtotal	1 456 064 (951 554)	2 335 829 (879 765)
	<b>504 510</b>	<b>1 456 064</b>

An unsecured loan of R 16 280 716 bearing interest at a fixed rate of 8%, repayable semi-annually in equal installments of capital, with interest on the reducing balance. The loan will be fully payable on 31st December 2018

### 15. Payables from exchange transactions

Trade payables	129 440 159	94 286 024
Payments received in advance	3 757 519	3 267 943
Retention	135 917 044	119 589 276
Staff bonus accrual	7 051 361	6 581 943
Other creditors	1 399 983	1 221 371
	<b>277 566 066</b>	<b>224 946 557</b>

### 16. Consumer deposits

Water	2 386 882	2 105 503
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### 17. Revenue

Service charges	51 779 729	52 899 929
Interest received (trading)	9 069 981	7 414 738
Other income	1 648 973	10 025 675
Retention, Creditors and water balance write off	-	2 894 320
Interest received - investment	12 684 665	16 753 237
Government grants & subsidies	1 072 909 939	1 197 019 952
Fines, Penalties and Forfeits	27 816	7 585
	<b>1 148 121 103</b>	<b>1 287 015 436</b>

#### The amount included in revenue arising from exchanges of goods or services are as follows:

Service charges	51 779 729	52 899 929
Interest received (trading)	9 069 981	7 414 738
Other income	1 648 973	10 025 675
Retention write off	-	2 894 320
Interest received - investment	12 684 665	16 753 237
	<b>75 183 348</b>	<b>89 987 899</b>

#### The amount included in revenue arising from non-exchange transactions is as follows:

##### Taxation revenue

##### Transfer revenue

Government grants & subsidies	1 072 909 939	1 197 019 952
Fines, Penalties and Forfeits	27 816	7 585
	<b>1 072 937 755</b>	<b>1 197 027 537</b>

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## Notes to the Financial Statements

Figures in Rand	2017	2016
<b>18. Service charges</b>		
Disconnections	91 129	116 421
Sale of water	40 479 401	42 317 236
Sewerage fees	11 209 199	10 466 272
	<b>51 779 729</b>	<b>52 899 929</b>
<b>19. Other revenue</b>		
Sale of tenders	674 782	1 225 427
SETA	361 821	449 443
Fire safety	302 513	202 044
Donations	-	2 882 758
Sundries	309 857	5 266 003
Retention and creditors write off	-	2 894 320
	<b>1 648 973</b>	<b>12 919 995</b>
<b>20. Investment revenue</b>		
<b>Interest revenue</b>		
Bank	12 684 665	16 753 237
	-	-
	<b>12 684 665</b>	<b>16 753 237</b>
<b>21. Grants and subsidies paid</b>		
<b>Other subsidies</b>		
Sekhukhune Development Agency	2 947 015	4 907 641
Grants paid to ME's	-	-
Other subsidies	<b>2 947 015</b>	<b>4 907 641</b>

# Sekhukhune District Municipality

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Financial Statements for the year ended 30 June 2017

## Notes to the Financial Statements

Figures in Rand	2017	2016
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### 22. Government grants and subsidies

#### Operating grants

Equitable share	600 889 750	546 538 000
EPWP	1 539 000	1 939 000
MSIG	65 563	874 437
FMG Grant	1 250 000	1 250 000
Department of Health	9 534 000	9 470 301
	<b>613 278 313</b>	<b>560 071 738</b>

#### Capital grants

Regional Bulk Infrastructure Grant (RBIG)	96 352 072	153 549 729
Rural Roads Asset Management System Grant (RRAMS)	1 636 020	2 291 307
Water Services Operating Transfer and Subsidy Grant (WSOS)	-	12 597 757
Municipal Infrastructure Grant (MIG)	331 184 150	462 830 765
Water Services Infrastructure Grant (WSIG)	30 459 384	-
RHIG	-	5 678 656
	<b>459 631 626</b>	<b>636 948 214</b>
	613 278 313	560 071 738
	459 631 626	636 948 214
	<b>1 072 909 939</b>	<b>1 197 019 952</b>

#### Conditional and Unconditional

Included in above are the following grants and subsidies received:

Conditional grants received	451 573 499	641 011 651
Unconditional grants received	610 423 750	556 008 301
	<b>1 061 997 249</b>	<b>1 197 019 952</b>

#### Equitable Share

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.

#### Municipal Infrastructure Grant

Balance unspent at beginning of year	16 183 843	160 287 608
Current-year receipts	331 184 000	427 014 000
Conditions met - transferred to revenue	(331 184 000)	(462 830 765)
Amount deducted from Equitable Shares - Treasury	(16 183 843)	(108 287 000)
	<b>-</b>	<b>16 183 843</b>

Conditions still to be met - remain liabilities (see note 12).

#### Municipal System Integrated Grant (MSIG)

Balance unspent at beginning of year	65 563	-
Current-year receipts	-	940 000
Conditions met - transferred to revenue	(65 563)	(874 437)
	<b>-</b>	<b>65 563</b>

Conditions still to be met - remain liabilities (see note 12).

#### Regional Bulk Infrastructure Grant (RBIG)

# Sekhukhune District Municipality

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## Notes to the Financial Statements

Figures in Rand	2017	2016
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### 22. Government grants and subsidies (continued)

Balance unspent at beginning of year	(47 139 224)	36 289 607
Current-year receipts	98 501 210	164 399 346
Conditions met - transferred to revenue	(96 352 071)	(153 549 729)
	<b>(44 990 085)</b>	<b>47 139 224</b>

The amount is shown as receivables from non exchange transactions

#### Expanded Public Works Programme (EPWP)

Current-year receipts	1 539 000	1 939 000
Conditions met - transferred to revenue	(1 539 000)	(1 939 000)
	-	-

Conditions still to be met - remain liabilities (see note 12).

#### Water Services Operating Transfer and Subsidy Grant (WSOS)

Balance unspent at beginning of year	3 180 907	15 778 738
Conditions met - transferred to revenue	-	(12 597 831)
Amount deducted from Equitable Shares - National Treasury	(3 180 907)	-
	-	<b>3 180 907</b>

Conditions still to be met - remain liabilities (see note 12).

#### Financial Management Grant (FMG)

Current-year receipts	1 250 000	1 250 000
Conditions met - transferred to revenue	(1 250 000)	(1 250 000)
	-	-

Conditions still to be met - remain liabilities (see note 12).

#### Water Services Infrastructure Grant (WSIG)

Current-year receipts	64 000 000	-
Conditions met - transferred to revenue	(30 459 384)	-
	<b>33 540 616</b>	-

Conditions still to be met - remain liabilities (see note 12).

#### Rural Roads Asset Management System Grant

Balance unspent at beginning of year	-	222 307
Current-year receipts	2 120 000	2 069 000
Conditions met - transferred to revenue	(1 636 020)	(2 291 307)
	<b>483 980</b>	-

Conditions still to be met - remain liabilities (see note 12).

## Sekhukhune District Municipality

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Financial Statements for the year ended 30 June 2017

### Notes to the Financial Statements

Figures in Rand	2017	2016
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#### 22. Government grants and subsidies (continued)

##### RHIG

Balance unspent at beginning of year	-	1 178 655
Current-year receipts	-	4 500 000
Conditions met - transferred to revenue	-	(5 678 655)
	-	-

Conditions still to be met - remain liabilities (see note 12).

# Sekhukhune District Municipality

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Financial Statements for the year ended 30 June 2017

## Notes to the Financial Statements

Figures in Rand	2017	2016
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### 23. Employee related costs

Basic	198 432 191	185 068 575
Medical aid - company contributions	10 153 985	9 907 787
UIF	1 370 660	1 311 308
SDL	2 391 000	2 240 714
Council levies	73 467	67 144
Leave and bonus pay	14 895 464	17 399 135
Pension fund contributions	29 513 706	27 205 582
Overtime payments	17 644 746	16 715 867
Transport allowance	26 292 898	26 871 706
Housing benefits and allowances	2 311 317	4 391 693
Cellphone allowance	1 472 982	1 536 635
Daily and overnight allowance	364 319	373 930
Group insurance	1 123 642	1 064 874
Interns allowance	262 364	401 631
Uniform allowance	-	10 000
	<b>306 302 741</b>	<b>294 566 581</b>

### Remuneration of municipal manager

Annual Remuneration	1 281 150	1 287 641
Car Allowance	196 323	252 521
Contributions to UIF, Medical and Pension Funds	171 280	187 770
Other allowance	24 153	30 564
Leave payout	185 831	-
	<b>1 858 737</b>	<b>1 758 496</b>

### Remuneration of chief finance officer

The position of the Chief Financial Officer was vacant during the year and only Acting Allowance payable to the official in acting capacity

### Director - Corporate Services

Annual Remuneration	1 026 239	942 990
Car Allowance	177 624	194 564
Contributions to UIF, Medical and Pension Funds	92 062	90 404
Other	148 020	25 385
Leave payout	112 947	-
	<b>1 556 892</b>	<b>1 253 343</b>

### Director - Community Services

Annual Remuneration	1 031 543	906 149
Car Allowance	108 891	128 253
Contributions to UIF, Medical and Pension Funds	141 006	149 578
Other	24 480	24 990
	<b>1 305 920</b>	<b>1 208 970</b>

### Director - Infrastructure and water services

Annual Remuneration	1 027 568	955 792
Car Allowance	185 197	202 787
Contributions to UIF, Medical and Pension Funds	212 918	198 492
Other	23 190	23 869

# Sekhukhune District Municipality

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## Notes to the Financial Statements

Figures in Rand	2017	2016
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### 23. Employee related costs (continued)

	1 448 873	1 380 940
<b>Planning Director</b>		
Annual Remuneration	787 227	954 038
Car Allowance	184 048	153 573
Contributions to UIF, Medical and Pension Funds	52 212	55 260
Other	19 262	21 788
Leave payout	76 375	-
	<b>1 119 124</b>	<b>1 184 659</b>

The position for Director Planning was vacant for two months during the year

### Chief Audit Executive

Annual Remuneration	974 157	904 832
Car Allowance	178 393	203 974
Contributions to UIF, Medical and Pension Funds	159 335	151 398
Other	23 670	23 329
	<b>1 335 555</b>	<b>1 283 533</b>

### 24. Remuneration of councillors

Executive Major	913 562	-
Chief Whip	765 436	-
Mayoral Committee Members	4 694 628	-
Speaker	744 539	-
Councillors	7 161 136	16 278 654
	<b>14 279 301</b>	<b>16 278 654</b>

### 25. Depreciation and amortisation

Property, plant and equipment	68 358 732	65 389 989
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### 26. Impairment of assets

#### Impairments

Property, plant and equipment	23 643 105	23 250
The municipality has assessed the projects that are slow moving and incomplete and assessed the impairment conditions. The recoverable amount of the assets was based on its fair value less costs to sell or its value in use.		
	23 643 105	23 250
	-	-

The main classes of assets affected by impairment losses are:

Work in progress (Projects)

### 27. Finance costs

Borrowings and discounting of provisions	3 073 237	1 545 985
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# Sekhukhune District Municipality

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Financial Statements for the year ended 30 June 2017

## Notes to the Financial Statements

Figures in Rand	2017	2016
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### 28. Debt impairment

Debt impairment	25 095 340	18 605 801
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### 29. Bulk purchases

Electricity	47 086 049	38 364 798
Water	107 446 312	112 934 465
	<b>154 532 361</b>	<b>151 299 263</b>

### 30. VIP Sanitation

VIP Sanitation	138 384 565	242 485 014
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The above expenditure represent project expenditure on provision of VIP sanitation to the households. The assets are transferred immediately to identified beneficiaries upon completion of construction.

### 31. General expenses

Advertising and promotions	1 893 785	2 228 201
Auditors remuneration	6 308 480	6 342 225
Bank charges	262 453	284 076
Stakeholder and community engagement	2 355 803	2 572 872
Computer expenses	216 098	1 667 748
Consulting and professional fees	23 850 799	18 074 195
Consumables	1 736 266	1 353 522
Laboratories and chemicals	7 405 872	17 252 134
Entertainment	44 838	49 921
Conferences and workshops	34 975	65 147
Insurance	3 078 624	1 820 507
Cost recovery	7 348 790	7 049 671
Audit committee costs	436 813	496 614
Fuel and lubricants	10 430 985	10 484 115
Recruitment and retention fees	732 910	726 934
Security (Guarding of municipal property)	28 403 066	22 017 151
Motor vehicle expenses	37 211 058	28 849 250
Bursaries	1 886 904	3 428 682
Subscriptions and membership fees	3 531 575	3 331 829
Telephone and fax	7 846 383	4 879 518
Travel and Subsistence	105 820	319 038
Water, electricity and rates	-	1 187 170
Accommodation	2 937 312	2 288 675
Other expenses	14 576 575	20 281 334
Water tankering	37 800 363	32 497 163
Training	1 003 609	899 465
	<b>201 440 156</b>	<b>190 447 157</b>

### 32. Auditors' remuneration

Fees	6 308 480	6 342 225
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# Sekhukhune District Municipality

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## Notes to the Financial Statements

Figures in Rand	2017	2016
<b>33. Taxation</b>		
<b>34. Cash generated from operations</b>		
Surplus	147 504 382	243 822 012
<b>Adjustments for:</b>		
Depreciation and amortisation	68 358 732	65 389 989
Gain on sale of assets and liabilities	405 203	739 422
Finance costs - Finance leases	3 073 237	1 545 985
Impairment deficit	23 643 105	23 250
Debt impairment	25 095 340	18 605 801
Movements in operating lease assets and accruals	(494 089)	2 514 206
Movements in provisions	(7 671 782)	12 912 886
<b>Changes in working capital:</b>		
Inventories	(9 067 945)	(2 953 311)
Receivables from exchange transactions	3 681 565	(8 115 365)
Consumer debtors	(25 095 340)	(18 605 801)
Other receivables from non-exchange transactions	2 160 271	(6 762 039)
Payables from exchange transactions	52 619 509	29 623 086
VAT	(6 692 392)	(37 669 257)
Unspent conditional grants and receipts	14 594 283	(158 036 996)
Consumer deposits	281 379	528 879
Other non cash movements	1 609 863	-
	<b>294 005 321</b>	<b>143 562 747</b>

## 35. Financial instruments disclosure

### Categories of financial instruments

#### 2017

#### Financial assets

	At amortised cost	Total
Other financial assets	1 000	1 000
Trade and other receivables from exchange transactions	52 560 330	52 560 330
Other receivables from non-exchange transactions	75 125 197	75 125 197
Cash and cash equivalents	18 961 397	18 961 397
VAT Receivable	52 445 506	52 445 506
	<b>199 093 430</b>	<b>199 093 430</b>

#### Financial liabilities

	At amortised cost	Total
Other financial liabilities	2 020 117	2 020 117
Trade and other payables from exchange transactions	277 311 648	277 311 648
Bank overdraft	488 657	488 657
Borrowings	1 456 064	1 456 064
	<b>281 276 486</b>	<b>281 276 486</b>

### Financial instruments in Statement of financial performance

#### 2017

# Sekhukhune District Municipality

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## Notes to the Financial Statements

Figures in Rand	2017	2016
<b>35. Financial instruments disclosure (continued)</b>		
	At amortised cost	Total
Interest expense (calculated using effective interest method) for financial instruments at amortised cost	3 073 237	3 073 237
<b>36. Commitments</b>		
<b>Authorised capital expenditure</b>		
<b>Already contracted for but not provided for</b>		
• Property, plant and equipment	253 574 347	320 621 240
<b>Total capital commitments</b>		
Already contracted for but not provided for	253 574 347	320 621 240
This committed expenditure relates to property and will be financed by grants, retained surpluses and internally generated funds.		
<b>Operating leases - as lessee (expense)</b>		
<b>Minimum lease payments due</b>		
- within one year	38 468 755	57 603 011
Operating lease payments represent rentals payable by the municipality for certain of its office properties as well as fleet. Leases are negotiated for an average term of five years and rentals are fixed for an average of three years. No contingent rent is payable.		
<b>37. Contingencies</b>		
Litigation is in the process against the municipality relating to a dispute with awarding of contracts, payments to contractors and employees dismissed to the value of R122 538 000 (2016 - R60 023 533) -. The municipality's lawyers and management consider the likelihood of the action against the municipality being successful as unlikely, and the case should be resolved within the next two years.		
<b>Contingent assets</b>		
The municipality has spent an amount of R6 119 375 on MIG funded projects but subsequently funding on the projects was stopped. The municipality is in the process of reclaiming the funding from National Treasury.		
<b>38. Related parties</b>		
Relationships		
Sekhukhune Development Agency	Refer to note	
<b>Related party balances</b>		
<b>Amounts included in Trade Payable regarding related parties</b>		
Sekhukhune Development Agency	581 505	581 505
<b>Other</b>		
Investment	1 000	1 000
Grants and subsidies	2 947 015	4 907 641

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### 39. Change in estimate

#### Property, plant and equipment

The useful life of moveable assets ( Office equipment, furniture and IT equipment) was found to have been under estimated. In the current period management have revised their estimate for moveable assets. The effect of this revision has increased the depreciation charges for the current and future periods by R 4 668 214

### 40. Prior period errors

The service charges were understated by an amount of R1 160 293 and accounts receivable also misstated due to the fact that revenue for 15 days after meters were read in June 2016 were not accounted for.

Retention was understated with an amount of R3 465 459 as the amount was expensed in the previous years.

Assets to the amount of R44 196 732 were not capitalised in the prior year and WIP not reduced with an amount of R39 314 609

Useful lives of Movable assets were not reviewed in the previous financial years resulting in assets with good working conditions carried at R1 in the accounting records. The error resulted in accumulated depreciation of assets overstated by R4 698 214

The municipality has erroneously not straight lined operating leases in the previous years resulting in under statement of lease rentals with an amount of R2 514 206 and lease liability understated with the same amount

Trade payables were understated with an amount of R8 962 530 due to bulk purchases from DWS not accounted for. The bulk purchases were also understated with an equivalent amount

WIP to the amount of R37 862 217.83 was overstated in the previous years due to duplications and incorrect capitalisation

WIP to the amount of R18 122 525.46 was understated due to a project with a negative WIP balance

WIP to the amount of R18 122 525.46 was overstated due to a project with a negative WIP balance

The correction of the error(s) results in adjustments as follows:

#### Statement of financial position

Receivables from exchange transactions	-	1 322 734
VAT Receivable	-	(162 441)
Payables from exchange transactions	-	(12 427 689)
PPE	-	48 894 946
Opening Accumulated Surplus or Deficit	-	3 282 659
Work in progress	-	(59 055 411)
Operating lease liability	-	(2 514 206)

#### Statement of financial performance

Service charges	-	(1 160 293)
General expenses - Fleet management	-	2 514 206
Bulk purchases	-	8 962 530

### 41. Risk management

#### Financial risk management

The municipality's activities expose it to a variety of financial risks: market risk including currency risk, fair value interest rate risk, credit risk and liquidity risk.

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### 41. Risk management (continued)

#### Liquidity risk

The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities and also reserving funds from VAT and interest to cover due liabilities especially retention amount

Cash flow forecasts are prepared and adequate utilised borrowing facilities are monitored.

#### Credit risk

Credit risk consists mainly of cash deposits, cash equivalents, derivative financial instruments and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the board. The utilisation of credit limits is regularly monitored. Sales to retail customers are settled in cash or using major credit cards. Credit guarantee insurance is purchased when deemed appropriate.

#### Market risk

##### Interest rate risk

As the municipality has no significant interest-bearing assets, the municipality's income and operating cash flows are substantially independent of changes in market interest rates.

The municipality's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the municipality to cash flow interest rate risk.

### 42. Going concern

The financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

### 43. Events after the reporting date

No material non adjusting events occurred after the reporting date.

### 44. Unauthorised expenditure

Over spending	97 440 000	20 568 779
Authorised by council	-	(20 568 779)
	<b>97 440 000</b>	<b>-</b>

The unauthorised expenditure is due to over spending in budget and treasury, MM's office, IWS and community services. The expenditure has been reported to council and recommended further investigation by council committee.

### 45. Fruitless and wasteful expenditure

Opening	1 244 300	1 077 596
Expenditure during the year	54 903	166 704
<b>Fruitless and wasteful expenditure awaiting authorisation</b>	<b>1 299 203</b>	<b>1 244 300</b>

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### 45. Fruitless and wasteful expenditure (continued)

The expenditure was incurred due to erratum issued on public notices and adverts. The investigations are underway through a council committee

### 46. Irregular expenditure

Opening balance	857 686 071	613 321 226
Add: Irregular Expenditure - current year	341 642	244 364 845
	<b>858 027 713</b>	<b>857 686 071</b>

### Analysis of expenditure awaiting condonation per age classification

Current year	341 642	244 364 845
Prior years	857 686 071	613 321 226
	<b>858 027 713</b>	<b>857 686 071</b>

### Details of irregular expenditure – current year

Rental paid on expired contracts	Disciplinary steps taken/criminal proceedings The official concerned is undergoing disciplinary proceedings	341 642
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### 47. Additional disclosure in terms of Municipal Finance Management Act

#### Contributions to organised local government

Current year subscription / fee	3 368 716	3 464 641
Amount paid - current year	(3 368 716)	(3 464 641)
	-	-

#### Material distribution losses

KL of water not billed	20 784 818	13 877 523
Value of water losses during the year	115 786 831	75 981 599
	<b>115 786 831</b>	<b>75 981 599</b>

#### Audit fees

Current year subscription / fee	5 269 664	3 356 418
Amount paid - current year	(5 269 664)	(3 356 418)
	-	-

#### PAYE and UIF

Current year subscription / fee	50 493 861	38 908 330
Amount paid - current year	(50 493 861)	(38 908 330)
	-	-

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### 47. Additional disclosure in terms of Municipal Finance Management Act (continued)

#### Pension and Medical Aid Deductions

Opening balance	(148 756)	(137 419)
Current year subscription / fee	44 415 221	58 119 027
Amount paid - current year	(44 408 890)	(58 130 364)
	<b>(142 425)</b>	<b>(148 756)</b>

#### VAT

VAT receivable	52 544 926	45 852 534
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VAT output payables and VAT input receivables are shown in note .

All VAT returns have been submitted by the due date throughout the year.

#### Councillors' arrear consumer accounts

No councillor was owing the municipality over three months as at 30 June 2017:

During the year the following Councillors' had arrear accounts outstanding for more than 90 days.

### 48. Deviation from supply chain management regulations

Paragraph 12(1)(d)(i) of Government gazette No. 27636 issued on 30 May 2005 states that a supply chain management policy must provide for the procurement of goods and services by way of a competitive bidding process.

Paragraph 36 of the same gazette states that the accounting officer may dispense with the official procurement process in certain circumstances, provided that he records the reasons for any deviations and reports them to the next meeting of the council and includes a note to the financial statements.

Several goods and services to the value of **R833 404** were procured during the financial year under review and the process followed in procuring those goods deviated from the provisions of paragraph 12(1)(d)(i) as stated above. The reasons for these deviations were documented and reported to council who considered them and subsequently approved the deviation from the normal supply chain management regulations.

### 49. Budget differences

#### Material differences between budget and actual amounts

N1 - The over recognition of service charges is due to meter and customer data audits performed during the year which resulted in an increase in billings as we identified more customers who were not billed accurately

N2 - Increase in interest on debtors as compared to budgeted amounts is due to limited credit control actions undertaken during the year as a result of inconsistent supply of services

N3 - Other income recognised is less than budgeted amounts due to the fact that anticipated retention write off of R22m was not effected during the year as retention investigated revealed that amounts shown as retention is for slow moving projects

N4 - The municipality has recognised additional interest from investments as compared to budget to the fact that most of spending on conditional grants happened at mid year as contractors were not appointed on time and the conditional grants received were invested for a longer period than anticipated

N5 - Grants and subsidies recognised is less than budgeted amounts due to the fact that National Treasury has stopped funds for MIG and late payments of grants by DWS led to poor spending on RBIG grant. Poor spending on WSIG grant due to late appointment of contractors also resulted in low revenue recognition. Included in the budgeted amounts for grants is donated assets to the amount of R80m that were not received at year end

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### 49. Budget differences (continued)

N6 - The over spending on travel and overtime during the year due to poor monitoring resulted in over spending on employee costs

N7 - The municipality has over expenditure on depreciation costs as compared to budget due to the fact that assets to the amount of R40m were found to have not been properly capitalised in the prior year that resulted to an increase in depreciation during the year. Projects to an amount of R70m were also capitalised during the year and were not properly budgeted for

N8 - Over expenditure on impairment loss was mainly due to impairment of WIP that was not anticipated. The municipality investigated all WIP projects during the year and identified that some of the projects have lost value and has been vandalised resulting in decreased recoverability amounts.

N9 - The increase in finance costs is due to interest expense on provision estimates which was not anticipated during budgeting process.

N10 - Over expenditure on debt impairment is due to lot of customers failing to honour their monthly accounts as a result of inconsistent water supply and limited credit control actions implemented by the municipality. The reduction in prior year provision as a result of debt written off also contributed to the increase.

N11 - Repairs and maintenance expenditure is more than budgeted amounts due to ageing infrastructure and lack of O&M plan that should inform the budget. No preventive maintenance was planned.

N12 - The increase in purification plants and conversion from fuel operated boreholes resulted to increase in electricity costs. The municipality also increased supply of water through water tankering during the year

N13 - Poor spending on projects for VIP due to late appointment of contractors and the stopping of funds by National Treasury resulted in underspending on VIP sanitation projects

N14 - Increase in general expenses is mainly due to increase in water tankering costs due to scope of water supplied increased, fleet management costs also increased as new service delivery vehicles were bought during the year and increase in security and professional fees resulted in over spending on general expenses.